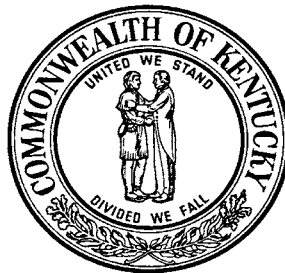


**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - UNMINED COAL TAXES**

August 14, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Morgan County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Morgan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

August 14, 2002

Berger & Ross, PLLC
Certified Public Accountants and Fraud Examiners
800 Envoy Circle
Louisville, KY 40299-1837
(502) 499-9088
Fax: (502) 499-9132

400 Democrat Drive
Suite 2107
Frankfort, KY 40601
(502) 695-7353

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND 2001 UNMINED COAL TAXES

August 14, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement 2001 Unmined Coal Taxes for Morgan County Sheriff as of August 14, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$1,806,614 for the districts for 2001 taxes. Sheriff distributed taxes of \$1,806,577 to the districts for 2001 Taxes. Taxes of \$359 are due to the districts from the Sheriff and refunds of \$322 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

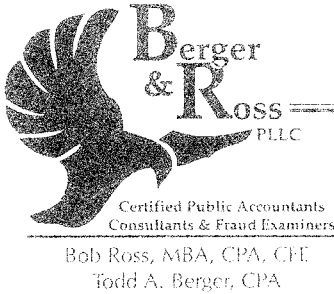
Deposits:

The Sheriff's deposits were uninsured and insufficiently collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2001 TAXES	3
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES	5
NOTES TO FINANCIAL STATEMENTS	6
COMMENT AND RECOMMENDATION	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Members

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 14, 2002. These tax settlements are the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid as of August 14, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 14, 2002

MORGAN COUNTY
BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 14, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 103,334	\$ 429,611	\$ 730,308	\$ 238,180
Tangible	14,474	63,539	102,302	73,525
Intangible	-	-	-	23,111
Fire Acreage	3,499	-	-	-
Additional Bills	103	427	726	237
Oil, Gas, Limestone, Sand, Gravel, & Clay	333	1,382	2,352	767
Total Per Sheriff's Official Receipt	\$ 121,743	\$ 494,959	\$ 835,688	\$ 335,820
<u>Other Taxes and Charges</u>				
Bank Shares	24,109	-	-	-
Correcting Erroneous Assessments	22	91	146	144
Franchise Corporation	16,297	71,272	114,947	-
Penalties & Interest	1,425	5,797	9,841	3,388
Gross Chargeable to Sheriff	\$ 163,596	\$ 572,119	\$ 960,622	\$ 339,352
<u>Credits</u>				
Exonerations	\$ 2,570	\$ 10,942	\$ 18,150	\$ 4,248
Delinquents	6,262	25,606	43,094	14,455
Unpaid Franchise	124	549	859	-
Discounts	2,042	6,344	10,690	4,698
Total Credits	\$ 10,998	\$ 43,441	\$ 72,793	\$ 23,401
Net Tax Yield	\$ 152,598	\$ 528,678	\$ 887,829	\$ 315,951
Less: Commissions*	6,773	22,469	35,513	13,715
Taxes Due Districts	\$ 145,825	\$ 506,209	\$ 852,316	\$ 302,236
Taxes Paid	146,071	506,217	887,477	302,298
Less: Commission Refunds From School	-	-	(35,513)	-
		**		
Taxes Due Districts (or Refund Due Sheriff) as of Completion of Fieldwork	\$ (246)	\$ (8)	\$ 352	\$ (62)

* and ** See Page 4

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
August 14, 2002
(Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	987,227
	4% on	\$	887,829
**Special Taxing Districts:			
Health District		\$	(1)
Extension Service District			6
Ambulance District			(7)
Soil Conservation District			<u>(6)</u>
Due Districts or (Refunds Due Sheriff)		\$	<u><u>(8)</u></u>

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES

August 14, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 2	\$ 7	\$ 13	\$ 5
Gross Chargeable to Sheriff	\$ 2	\$ 7	\$ 13	\$ 5
Net Tax Yield	\$ 2	\$ 7	\$ 13	\$ 5
Less: Commissions*	-	-	-	-
Taxes Due Districts	\$ 2	\$ 7	\$ 13	\$ 5
Taxes Paid	2	7	13	5
Taxes Due Districts (Refund Due Sheriff) as of Completion of Fieldwork Date	\$ -	\$ -	\$ -	\$ -

* No commissions were due on these taxes.

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS

August 14, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

These financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 19, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$166,857 of public funds uninsured and unsecured.

MORGAN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 August 14, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 19, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,000,000
Federal Deposit Insurance Corporation Coverage	100,000
Uncollateralized and uninsured	<u>166,857</u>
Total	<u>\$ 1,266,857</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2001 through April 26, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 27, 2001 through April 26, 2002.

Note 4. Interest Income

The Morgan County Sheriff earned \$2,459 as interest income on 2001 taxes. As of October 14, 2002, the Sheriff owes \$68 in interest to his fee account and is due a refund of \$24 in interest from the Common School District.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$14,495 of 10% add-on fees allowed by KRS 134.430(3). As of October 14, 2002, the Sheriff owes \$2,129 in 10% add-on fees to his fee account.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS
August 14, 2002
(Continued)

Note 6. Advertising Costs And Fees

The Morgan County Sheriff collected \$228 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). As of October 14, 2002, the Sheriff owes \$228 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplainable Receipts Should Be Escrowed

A. 2000 Taxes

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$1,370 in unrefundable duplicate payments and unexplainable receipts.

A. 2001 Taxes

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$690 in unrefundable duplicate payments and unexplainable receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

MORGAN COUNTY
BILL LACY, SHERIFF
COMMENT AND RECOMMENDATION

August 14, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$166,857 To Protect Deposits

On December 19, 2001, \$166,857 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480 (1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Will notify bank.

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REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

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Certified Public Accountants
National Society of Accountants
National Association of Tax Professionals
International Federation of Accountants

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Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 14, 2002, and have issued our report thereon dated October 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 14, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance which is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 14, 2002

